

DRAFT

**TESTIMONY OF INGA CARUS
CARUS CHEMICAL COMPANY**

*Regarding Potassium Permanganate from
China (A-570-001)*

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Testimony of Inga Carus Carus Chemical Company

Mr. Chairman and members of the Subcommittee, my name is Inga Carus. I am Executive Vice President of Carus Chemical Company ("Carus") of Peru, Illinois, a family-owned company founded by my Grandfather 88 years ago. Carus is the only remaining U.S. producer of potassium permanganate, a chemical that has important applications, including drinking water and wastewater treatment, and contaminated site clean-up.

We appreciate the opportunity to describe our recent experience in antidumping cases against Chinese entities. Since 1983, the United States has had in place an antidumping duty order against unfairly priced potassium permanganate from China. Due to economies of scale and our patented process improvements, Carus is the world's most efficient producer. The dumping order is necessary because Chinese firms continue to sell potassium permanganate on the world market at prices that are below the market economy cost of raw material and energy inputs.

In recent annual reviews of the dumping order, unscrupulous Chinese enterprises, aided by equally unscrupulous U.S. parties, have aggressively sought to eliminate the dumping duty on their potassium permanganate imports. These parties have used a variety of fraudulent, illegal and abusive tactics -- including the forging of key Chinese documents, fraud on U.S. Government investigators and violations of important U.S. laws and regulations. Our experience has included the following appalling examples --

1. The annual review for 1999 of Chinese producer Zunyi Chemical Factory involved a single test shipment to U.S. importer Wego Chemical. This shipment was smuggled into the US from China in a shipping container and falsely labeled "tools and toys." Because potassium permanganate is a hazardous oxidizer, this violated numerous U.S. regulations on the import and transport of hazardous materials into the US. It also placed the container ship and its crew in considerable danger. (It is of note that potassium permanganate is a potentially incendiary substance that has been found in the homes of the Unibomber as well as terrorists in Frankfurt, Germany). Despite this illegal conduct, Commerce Department rules and practice allowed the case to be continued and awarded a lower margin for Zunyi with no apparent consequences for this illegal conduct.

2. In the new shipper review for 2000, the Commerce Department conducted a 16-month review of Chinese producer Groupstars. This included a two-week on-site verification at Groupstars' multiple sites in China. Carus raised a number of serious concerns about Groupstars, but the Department was unable to uncover supporting evidence at verification. Later on, however, the Department dismissed the review when Carus proved that Groupstars had forged a key business license. Groupstars has suffered no other consequences for this fraud. Groupstars officials have since admitted to the Department that they "made up" all of their key claims in that review and lied about the actual producer. To back up their false claims, Groupstars forged accounting documents and production records, which they presented as bona fide to the Commerce Department at verification. Congressman Jerry Weller has asked the

Commerce Department Inspector General to investigate this clear evidence of extensive fraud on the U.S. Commerce Department.

3. Given the absence of any consequences arising from such fraud and the absence of meaningful deterrents, Groupstars sought another review for 2001, which is currently ongoing. In this review, Groupstars has continued to make false and misleading statements to the Department. For example, Groupstars and its lawyers submitted copies of sensitive Indian company internal documents, which they certified were obtained from the public record of a trade case in India. However, the Indian company protested and stated that these documents were company confidential and believed to be stolen.

4. Under its current regulations, the Commerce Department apparently has no authority to levy sanctions against companies and U.S. counsel that are willing to engage in such fraud and fabrication to evade dumping duties. These illegal activities waste the limited financial and human resources of the Commerce Department and impose unnecessary costs on U.S. taxpayers. Such fraudulent behavior has also cost Carus, a small company, over \$500,000 since early 2001 and could have put us out of business, with a loss of 205 jobs.

Carus believes that these and other serious abuses of the antidumping process point to the need to make changes in the way in which the dumping law is administered, particularly in certain China cases. Among other things --

1. China's progress toward a market economy has been steady in certain industries and regions and halting and uneven in others. In this environment, some dishonest Chinese enterprises and their U.S. importers have strong incentives to engage in fraud and deception in U.S. dumping cases. Standard Commerce Department investigation and verification techniques apparently are not sufficient to address the serious threats posed to U.S. producers by these unscrupulous parties. The Commerce Department needs to tighten policies and practices to assure that these dishonest parties are thoroughly investigated and that the Department's investigators have all appropriate resources, including specialized expertise in Chinese financial, business, technical and legal matters. Additionally, the Department should consider steps to provide greater assurance that Chinese information and recordkeeping systems are legitimate and reliable (i.e., insisting on audited and certified financial information as is required in the U.S.).

2. Commerce Department policies and procedures should ensure that fraud or illegal conduct uncovered during the course of dumping investigations is actively investigated and, where appropriate, referred for prosecution for fraud on the US Government. Additionally, it is important to examine whether changes in applicable law or regulations are necessary to help the Department combat such conduct, particularly if a firm engages in the conduct on a repeated basis. For example, the Department might consider a specialized office to investigate serious fraud allegations in dumping cases. Without meaningful deterrents, dishonest exporters and importers will continue to have every incentive to seek low duties by repeatedly filing false and misleading information with the Department.

3. Chinese exporters and their U.S. allies are increasingly "gaming the system" in their efforts to eliminate current dumping duties. For example, in our cases, Carus has seen the

abusive filing of new shipper reviews and highly questionable domestic sales to U.S. purchasers. The Commerce Department should undertake a systematic review of its longstanding policies and practices in non-market cases to determine if it needs to make changes to address this increased "gaming" by Chinese entities.

Carus appreciates the difficult task facing the Department of Commerce and its employees in investigating Chinese parties who are intent on eliminating current dumping duties through dishonest and abusive conduct. Carus is concerned, however, that the Department may not always have the resources and legal, regulatory, and other powers that it needs to address this conduct. Additionally, Carus, as a small company, cannot continue on its own to devote the extensive resources required to uncover and respond to this continuing fraud and abuse.

We urge the Subcommittee to address this serious situation. This is no mere academic exercise. Rather, the fate of many competitive and efficient U.S. businesses hangs in the balance. In the case of Carus, the continued survival of my family's company, the jobs of our 205 employees and the economy of the Illinois Valley region all critically depend on how Congress and the Commerce Department respond to these important concerns.

Mr. Chairman, we are not against free trade. However, the United States and the U.S. economy must be based on *fraud-free* trade. We again thank you for the chance to highlight these critical issues.